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This Annual Report is dedicated to Alfredo Robert Santistevan who had an integral role in preparing past reports for the New Mexico State Treasurer's Office.

The New Mexico State Treasurer's Office Annual Financial Report for the Fiscal Year ended June 30, 2013 provides a synopsis of STO's achievements.

An electronic version of this report is available at www.stonm.gov.



James B. Lewis

New Mexico State Treasurer
2006 - Present and 1985 - 1990

James B. Lewis has held the office of State Treasurer longer than any other State Treasurer since statehood, having served a total of twelve years. He is often quoted as saying, "There is no greater honor than to be elected by the people to serve as an elected public official." Treasurer Lewis is also the first and only African American to hold a statewide office in New Mexico, serving with great pride and dedication. The State Treasurer serves as the chief-elected financial officer and is the state's banker. He is the only state official to serve on all of the state's financial and investment boards and commissions, with a combined fiduciary responsibility of \$40 billion.

Born in Roswell and raised in Albuquerque, Treasurer Lewis moved to Gallup and graduated from Gallup High School. Treasurer Lewis has an Associate's degree, two Bachelor's degrees - one with honors - and a Master of Arts Degree in Public Administration from UNM. He holds numerous certificates in leadership, training and in the field of pensions and investments from the University of Pennsylvania, Wharton School of Business and the Northwestern University, Kellogg School of Business.

Treasurer Lewis served in the U.S. Army as a military policeman in the early 1970's. His career includes public service in federal, state, county and city governments, in both appointed and elected capacities. He was a Public Services Careers Program Coordinator with the New Mexico State Personnel Office, an Administrator/Educator with the University of Albuquerque and an Administrator/Investigator for the Bernalillo County District Attorney's Office. Treasurer Lewis was also elected twice as Bernalillo County Treasurer. He was appointed as Chief of Staff to former Governor Bruce King, Director, for the Oil, Gas and Minerals Division of the State of New Mexico Land Office and the Chief Clerk/CEO for the State of New Mexico Corporation Commission. Treasurer Lewis was appointed as the Rio Rancho City Administrator (city manager), Assistant Secretary for the U.S. Department of Energy, City of Albuquerque Chief Operating Officer and City of Albuquerque Chief Administrative Officer.

In addition, Treasurer Lewis has been a member of numerous civic and professional organizations. He has served and continues to serve on many boards and commissions of organizations, such as past treasurer for the American Society for Public Administration, board of directors for the United Way, the Los Alamos Diversity Council, and the Sickle Council of New Mexico. He is recognized by Who's Who in the West as well as Who's Who in America.

Nationally known as an influential leader, Treasurer Lewis served as the 2010 President of the National Association of State Treasurers, and is currently the president of the National Association of State Auditors, Comptrollers and Treasurers.

A wide variety of organizations have honored Treasurer Lewis. He received the Jesse M. Unruh Award in 2011 – the highest honor awarded by National Association of State Treasurers and the Legion of Honor - 30 Years and Accorded Distinctive Recognition - from the Kiwanis Club of Albuquerque in 2013. Treasurer Lewis received the 2013 Harlan Boyles-Edward T. Alter Distinguished Service Award, which is presented to dedicated public servants whose outstanding career in government has provided a respected voice for the National Association of State Treasurers at all levels of state government. Additionally, the New Mexico Business Journal listed Treasurer Lewis as one of the 100 Influential Power Brokers in the City of Albuquerque. He has been invited to the White House and he has attended congressional and regulatory hearings to discuss matters of importance to state treasuries. His extensive public service has greatly benefited New Mexico.

Since 2006 the goal of Treasurer Lewis has been to restore honesty and integrity to the office and he continues to raise that standard. He dedicated the pursuit and election as State Treasurer to his late wife Armandie Johnson Lewis, R.N. and his four children.



The Honorable James B. Lewis
New Mexico State Treasurer

Kim Lee



The Office of the State Treasurer is established by Article V, Section 1 of the New Mexico Constitution. The duties and responsibilities of the State Treasurer are primarily defined by Chapters 6 and 8 of the New Mexico Statutes Annotated 1978 (NMSA 1978). These and other Chapters of New Mexico Statute require the Treasurer to act as the State's banker to receive, keep, and account for state funds collected and disbursed, and define the State Treasurer's banking, cash management, and investment roles. The principal statutory provisions related to the State Treasurer's prudent management of the State's financial resources and investment authority are listed below.

Sections 8-6-1 through 8-6-7 NMSA 1978 specify administrative and procedural requirements and define certain duties of the State Treasurer. Section 8-6-3 states that, among other responsibilities, the State Treasurer shall "receive and keep all moneys of the state, except when otherwise specially provided" as well as "disburse the public money upon warrants drawn according to law." This section also provides that the State Treasurer shall "keep a just, true and comprehensive account of all moneys received and disbursed."

Section 6-1-13 NMSA 1978 provides that the State Treasurer shall authorize all deposit accounts for state agencies and prescribe conditions and reports appropriate to such accounts.

Section 6-8-6 NMSA 1978 places the state permanent fund in the custody of the State Treasurer; and provides that the state permanent fund, or any part of the fund, shall at all times be available to the State Investment Officer for investment in accordance with state law.

Section 6-8-11 NMSA 1978 places in the custody of the State Treasurer securities purchased or held by the State Investment Officer or the State Investment Council and authorizes the State Treasurer, with the approval of the secretary of the Department of Finance and Administration, to deposit the securities with a bank or trust company for safekeeping and servicing.

Section 6-10-10 NMSA 1978, in part, permits the State Treasurer to deposit funds in certain financial institutions and to invest, in certain allowable securities and contracts, money not immediately required for the operation of state government.

Section 6-10-10.1 NMSA 1978 creates a short-term investment fund, which serves as an optional investment opportunity for local governments and Native American tribes, nations and pueblos; and provides for the investment of the fund, either separately or consolidated with other funds, by the State Treasurer.

Sections 6-10-24.1, 6-10-25, 6-10-26, and 6-10-29 NMSA 1978 place conditions on the deposit and investment of state funds in New Mexico financial institutions; provide for reports from the State Treasurer concerning money on deposit in state depositories, including the amount required for operation of state government and the amount available for investment; and require depositories to submit an itemized monthly statement concerning the deposits to the State Treasurer.

Section 6-10-24.2 NMSA 1978 establishes the linked deposit program, which allows the State Treasurer to invest up to 14 percent of state deposits, not to exceed \$49 million, in certain financial institutions located in financially at risk rural communities; places conditions on the deposit of state funds in these financial institutions; and authorizes the State Treasurer to accept a rate of interest not more than 1 percent below the market rate.

Section 6-10-28 NMSA 1978 allows the State Treasurer, upon order of the State Board of Finance, to invest the proceeds of general obligation and state revenue bonds.

Section 6-12A-5 NMSA 1978, in part, permits the State Treasurer, upon approval by the State Board of Finance, to issue and sell one or more tax revenue anticipation notes; and permits the State Treasurer to pledge the anticipated revenue to secure the payment of the principal of and interest on the anticipation notes.



Staff as of June 30, 2013

EXECUTIVE STAFF



Top row: Cindy Cordova, Marilyn Hill, Linda Roseborough Bottom row: Sam Collins, Ronald Crespín, Clarence Smith

Administration

Marilyn Hill
Deputy Treasurer
Cindy Cordova
General Council

Alfredo Santistevan
Henrich Edimo
Cassandra Nicasio

Cash Management Division

Sam Collins
State Cash Manager

Victor Vigil
Dominic Chavez
Antoinette Griego Romero
Yolanda Chavira
Annabel Vigil
Florence Velarde
Michael Romero

Investment Division

Linda Roseborough
Chief Investment Officer

Kirene Bargas
Steve Vigil
Spencer Wright
Vikki Hanges
Arsenio Garduño
Denise Payne
Hannah Chavez
Marie Andermann
Amy Aguilar
Victoria Hutchison

Operations Division

Clarence L. Smith
Chief Operations Officer

Bernard Raymond
Robert Levin
Yvonne Ramirez
Bill Lewis
Paul Madrid

Budget and Finance Division

Ronald Crespín
Chief Financial Officer

Patricia Ortiz
Christina Baca
Alisha Dominick



IN 1851, THE LEGSLATIVE ASSEMBLY OF THE TERRITORY OF NEW MEXICO PASSED AN ACT THAT CREATED THE OFFICE OF THE TERRITORIAL TREASURER AND DEFINED THE POWERS AND DUTIES OF THE TREASURER.

With statehood in 1912, Article V of the State Constitution created the Office of the State Treasurer and recognized the State Treasurer as one of the elected officials constituting the executive department of state government. While the Governor is the chief executive officer, under New Mexico's plural executive, the other elected members of the executive branch share the responsibility for administering state government. The State Treasurer serves as the elected chief banking officer of the state and is entrusted with keeping, investing, and disbursing all state money, unless otherwise provided by law. In addition, the State Treasurer is charged with a variety of other duties directed toward ensuring prudent management of the state's financial resources as set forth in various sections of the statutes.

NEW MEXICO STATE TREASURERS

JAMES B. LEWIS
2006–PRESENT

<i>Owen N. Marron</i>	<i>1912– 1916</i>	<i>Joseph B. Grant</i>	<i>1957– 1958</i>
<i>H.L. Hall</i>	<i>1917– 1918</i>	<i>Joe Callaway</i>	<i>1959– 1960</i>
<i>Charles U. Strong</i>	<i>1919– 1920</i>	<i>Joe Callaway</i>	<i>1961– 1962</i>
<i>O.A. Matson</i>	<i>1921– 1922</i>	<i>Joseph B. Grant</i>	<i>1963– 1964</i>
<i>John W. Corbin</i>	<i>1923– 1924</i>	<i>Joseph B. Grant</i>	<i>1965– 1966</i>
<i>Warren R. Graham, Sr.</i>	<i>1925– 1926</i>	<i>H.E. Thomas, Jr.</i>	<i>1967– 1968</i>
<i>Warren R. Graham, Sr.</i>	<i>1927– 1928</i>	<i>Merrill B. Johns, Jr.</i>	<i>1968– 1969</i>
<i>Emerson Watts</i>	<i>1929– 1930</i>	<i>Jesse D. Kornegay</i>	<i>1969– 1970</i>
<i>Warren R. Graham, Sr.</i>	<i>1931– 1932</i>	<i>Jesse D. Kornegay</i>	<i>1971– 1974</i>
<i>Clinton P. Anderson</i>	<i>1933– 1934</i>	<i>Edward M. Murphy</i>	<i>1975– 1978</i>
<i>James J. Connelly</i>	<i>1935– 1936</i>	<i>Jan Alan Hartke</i>	<i>1979– 1982</i>
<i>James J. Connelly</i>	<i>1937– 1938</i>	<i>Earl E. Hartley</i>	<i>1983– 1985</i>
<i>Rex French</i>	<i>1939– 1940</i>	<i>James B. Lewis</i>	<i>1985– 1986</i>
<i>Rex French</i>	<i>1941– 1942</i>	<i>James B. Lewis</i>	<i>1987– 1990</i>
<i>Guy Shepard</i>	<i>1943– 1944</i>	<i>David W. King</i>	<i>1991– 1994</i>
<i>Guy Shepard</i>	<i>1945– 1946</i>	<i>Michael A. Montoya</i>	<i>1995– 1998</i>
<i>H.R. Rodgers</i>	<i>1947– 1948</i>	<i>Michael A. Montoya</i>	<i>1999– 2002</i>
<i>H.R. Rodgers</i>	<i>1949– 1950</i>	<i>Robert E. Vigil</i>	<i>2003– 2005</i>
<i>R.H. Grissom</i>	<i>1951– 1952</i>	<i>Douglas Minge Brown</i>	<i>2005– 2006</i>
<i>R.H. Grissom</i>	<i>1953– 1954</i>		
<i>Joseph B. Grant</i>	<i>1955– 1956</i>		



Vision Statement

As Guardian of the Treasury, we promote the highest ethical and professional standards at all times.

Mission Statement

As the State's Banker, we provide the most proficient, efficient, effective and productive banking services with full transparency to all internal and external customers.

Core Values

Trust ~ Respect ~ Efficiency of Operations ~ Adherence to Policies
Strong Internal Controls ~ Ethical Behavior ~ Integrity ~ Team Building
Skilled Workforce ~ Superior Performance ~ Consistency & Fairness
Transparency & Disclosure ~ Excellent Customer Service



Significant Milestones

Ethics Reform

When James B. Lewis was sworn in as State Treasurer December 15, 2006, his highest priority was to restore honesty and integrity to the Office of the State Treasurer. Since that date he has lived up to that commitment to make the office a model agency of high ethical standards and practices.

Office policies were updated to promote ethical behavior by staff. Code of conduct, campaign contributions and whistleblower policies were updated and approved to provide guidance to staff on ethical behavior. Training sessions on ethics and related topics were provided to staff to encourage high ethical standards in the workplace.

Treasurer Lewis served on the previous Governor's Task Force on Ethics Reform. He frequently conducts presentations on ethical practices and standards to include transparency in government to local, state, national and university audiences. He serves as faculty at the National Association of Treasurers new treasurer's symposium. He led the opening of National Association of State Treasurer's conference forum with a speech on *Ethics and Transparency in Government*. Treasurer Lewis continues to lead efforts to raise and maintain the highest ethical standards in the Office of the State Treasurer and in the operation of state government.

Accountability and Transparency

Treasurer Lewis supports full accountability and transparency to the public. All material transactions of the State Treasurer's Office are open to public scrutiny and all decision-making meetings are open to the public. The State Treasurer's website undergoes continuous improvement and is one of the most comprehensive websites in state government. It provides daily investment rates, monthly investment reports, operating budget comparisons, annual financial audit reports and a wealth of other information useful to the public. Additionally, the State Treasurer's Office provides prompt responses to requests for public information through the Inspection of Public Records Act. Information is disseminated to the public in other ways including press releases and articles.

The State Treasurer's Office maintains a number of internal and external checks and balances with respect to its activities. The State Treasurer engages an independent accounting firm with approval from the State Auditor to perform the annual financial audit of the State Treasury. Additionally, the State Treasurer is asked to appear before various legislative interim committees to present selected information. The State Treasurer operates under significant scrutiny and oversight to assure all transactions are in the best interest of the public.

The State Treasurer has an advisory State Treasurer's Investment Committee that reviews investment activity. The State Treasurer's Office also submits its Investment Policy to the State Board of Finance for advice and consent pursuant to NMSA 1978 6-1-10.

Efficiency of Operations

Over the past seven years the State Treasurer's Office has reduced its operating budget by \$650,000. The fiscal year 2013 cost savings yielded a \$123,170 reversion to the General Fund. The office continues to identify operating cost efficiencies, maintaining some authorized vacancies and reducing operating costs.

Investing for New Mexico

The State Treasurer's investment policy mandates the following principles for all investment decisions in this priority order: preservation of principal, ensuring the safety of public funds; liquidity requirements; and finally, yield. The State Treasurer's portfolios have maintained a positive return over the past six years, enduring the most challenging investment environment since the Great Depression.

The State Treasurer invests short-term funds for the state including the General Fund, state bond proceeds and debt service. Additionally, the Local Government Investment Pool is invested on behalf of numerous local government entities. All investment transactions have a substantial documentation and approval process to assure compliance with investment policy.



The State Treasurer increased the maximum allowable deposits in state banks through certificates of deposits from \$350 to \$400 million in fiscal year 2010 and authorized the use of bond proceeds investment pools for this purpose. This initiative was implemented by Treasurer Lewis as a tool to stimulate the state's economy.

Cash Forecasting

Accurate cash flow forecasting is essential to the State Treasurer's Office for liquidity management and short-term investing. In these challenging economic times, the General Fund has not seen returns this low in 30 years. The State Treasurer's Office continues to improve the cash forecasting model, closely tracking deposits and expenditures each day to assure sufficient cash flow for the state's daily expenditures, while efficiently investing surplus funds.

A joint initiative between the State Treasurer's Office, the Department of Finance and Administration and the Legislative Finance Committee was established to work with agencies carrying large negative fund balances with the goal of reducing or eliminating those negative balances. The agencies have identified the specific reasons for these negative balances and have initiated actions to address them. The most common resolution has been for agencies receiving large federal fund distributions or other reimbursements to increase the frequency of drawdowns.

Customer Service

One of Treasurer Lewis's priorities and goals is to continuously provide excellent customer service to the taxpayers, state and local government agencies and all other constituents. He sponsored customer service training for the staff and mandated personalized service to all individuals. Treasurer Lewis maintains an open door policy for all internal and external individuals wishing to meet with him.

Staff Education and Training

Since Treasurer Lewis first assumed the office of State Treasurer, he has held strong beliefs that a strong program of staff development is important to improve the knowledge and skills of the staff and to improve agency morale. Additionally, he reestablished the annual Local Government Investment Pool (LGIP) stakeholders meeting to inform LGIP participants of fund performance, investment trends, economic/market conditions and other pertinent issues. He encourages attendance and participation in various professional organizations such as the National Association of State Treasurers, National Association of Auditors, Comptrollers and Treasurers, Association of Government Accountants, Government Finance Officers Association, New Mexico Bar Association and the Economic Forum of Albuquerque.

Training opportunities provided to the staff during fiscal year 2013 included Microsoft software use, the Governmental Code of Conduct, Title VII from the Equal Employment Opportunity Commission, Emotional Intelligence, cybercrime awareness, ethics, the Treasurer's Office Code of Conduct and other internal policies. There was also training on email and internet usage protocol, managing employee performance, working in a union environment, driver safety, use of a state vehicle and the office recycling program. Legal and Information Technology Staff attended continuing education courses. Presenters were available to staff from the state's deferred compensation plan administrator, the Public Employees Retirement Association and the Retiree Health Care Authority

National Leadership

Treasurer Lewis is called upon at the national level to provide leadership in management, ethics reform, treasury operations, regulatory requirements, legislative proposals and professional opportunities for minorities and emerging business. He has made presentations at colleges/universities and to professional associations. He has been called upon to attend meetings at the White House, President's Deficit Commission, Congress, U. S. Treasury, Securities and Exchange Commission, Municipal Securities Rulemaking Board and the Federal Deposit Insurance Corporation in Washington, D.C.

Treasurer Lewis served as President of the National Association of State Treasurers in 2010. Additionally, in fiscal year 2012, he served as Second Vice President of the National Association of Auditors, Controllers and Treasurers. He ascended to President of the organization in the summer of 2013. He has taken an active leadership role in these national organizations over the past seven years.



Significant Milestones

Treasurer Lewis received the highest honor given by the National Association of State Treasurers in 2011, when he was given the Jesse M. Unruh award. This distinguished service award recognizes an active treasurer for outstanding service to the association, the profession and to their home state. He received the Legion of Honor - 30 Years and Accorded Distinctive Recognition - from the Kiwanis Club of Albuquerque in 2013. Treasurer Lewis also received the 2013 Harlan Boyles-Edward T. Alter Distinguished Service Award, which is presented to dedicated public servants whose outstanding career in government has provided a respected voice for the National Association of State Treasurers at all levels of state government. Additionally, the New Mexico Business Journal listed Treasurer Lewis as one of the 100 Influential Power Brokers in the City of Albuquerque. His extensive public service has greatly benefited New Mexico.

This local and national presence and leadership role has allowed Treasurer Lewis to be informed and have an impact on national issues affecting the states, including some of the following:

- ◆ Operation Rightful Owner legislation to return approximately \$13 billion to rightful owners of U.S. Savings Bonds
- ◆ 529 College Savings Plan Program
- ◆ Financial Literacy Program
- ◆ Dodd Frank Financial Regulatory Reform Legislation
- ◆ Expand Private Activity Bond Opportunities
- ◆ Rules for Municipal Bond Advisors
- ◆ Floating NAV Rate Decision
- ◆ Asset-Backed Securities Decision
- ◆ Governmental Accounting Standards Board Rules
- ◆ Federal Deposit Insurance Corporation Coverage of Public Deposits
- ◆ Tax-Exempt Status of Municipal Bonds

With his participation and leadership, Treasurer Lewis has worked at the national level to influence legislation, policy, rules and programs to benefit New Mexico. The leadership role of Treasurer Lewis in national organizations has led to hosting national meetings in New Mexico. In May 2012, the National Association of State Treasurers held their largest annual meeting/professional development gathering in Albuquerque.

The NAST Treasury Management Training Symposium was held at the Hyatt Regency - Downtown. State treasurers, treasury staff, college savings plan managers, unclaimed property administrators and debt management staff from across the country, Canada and Mexico, totaling almost 350, attended the conference. The group had a successful conference, enjoying after hours social events held at the Indian Pueblo Cultural Center and riding the Sandia Peak Tramway to the top of the mountain where dinner was served at the High Finance restaurant. The NAST group has really enjoyed attending meetings hosted in New Mexico.

As president of the National Association of State Auditors, Comptrollers and Treasurers, Treasurer Lewis will host the annual conference of this organization in Santa Fe, New Mexico in the summer of 2014. Again, membership from across the United States and several other countries will attend that conference, which will be headquartered at the Eldorado Hotel.

Hosting meetings for these national organizations brings very positive exposure to the state, while contributing to economic development. Conference participants often stay extra days or return to vacation in New Mexico. The people, history, culture and natural beauty of our state are showcased for conference attendees to appreciate.

Business Continuity and Disaster Recovery Planning

The State Treasurer's Office has initiated the first true disaster recovery plan allowing the office to continue to operate even when faced with a critical threat. Business continuity planning involves recognizing an organization's exposure to internal and external threats, identifying the organization's essential functions and key assets, and taking steps to effectively prevent and recover from both foreseeable and unforeseeable threats. The goal is to continue providing essential services with minimal disruption.



Examples of common threats include pandemic diseases, sabotage, earthquakes, fire, utility outage, floods, terrorism and cyber attacks. The threats in the examples above share a common theme - the potential to damage organizational infrastructure and cripple a very vital operation of the state.

The State Treasurer places the highest priority on the security and safety of state data and is committed to the full implementation of a disaster recovery plan. Critical functions handled by the State Treasurer's Office include time sensitive services such as investments, cash reconciliation, etc. The nature of these responsibilities makes it critical for STO to respond within time-sensitive parameters.

The State Treasurer's Office's operational and investment accounting servers are housed at the office site. The Department of Information Technology houses the email exchange server and the SHARE system. The State Treasurer's Office's hot-site, which houses back-up servers, is located off-site. The hot-site would go on-line, in the event a disaster impacted the State Treasurer's Office's main office equipment or facilities. All servers are tied together and continually updated.

The State Treasurer's Office business continuity plan can be easily activated in the event of a threat or work disruption. The office would be able to continue providing critical banking and investment services to state and local governments with minimal disruption.



Albuquerque International Balloon Fiesta
New Mexico Tourism Department



The Budget and Finance Division manages the annual budget, accounts payable, procurement, professional contracts, fixed asset inventory, and all financial accounting and reporting activities for the Office of the State Treasurer.

The division's responsibility is to reconcile and post operating, investment, and long-term debt fund activity in the State Treasurer's general ledger (financial statements). In addition, the Budget and Finance Division coordinates the State Treasurer's annual financial audit. The division must comply with state laws and various regulations and accounting standards that govern its activities.

Chief Financial Officer

The State Treasurer's Chief Financial Officer (CFO) serves as Budget and Finance Division Director. The CFO is responsible for establishing strong budgetary controls and ensuring financial transactions and reporting activities are in compliance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) rules. This function requires that transactions be recorded and posted in the proper category and that cash account records are reconciled in a timely manner with reports to the State Treasurer on a monthly basis.

The CFO is responsible for ensuring budget and accounting systems function properly and appropriation requests, operating budget, and quarterly performance reporting documents are submitted on time. In addition, the CFO coordinates annual external audit work between the State Treasurer's Office and the independent public accounting firm, and is responsible for having the audit reports completed by the deadline. This position oversees procurement of goods and services and assures payments to vendors are completed in compliance with the state procurement law.

Budget Bureau

The Budget Bureau compiles and evaluates annual budget needs for each division within the State Treasurer's Office. Proper justification and documentation are required for all budget requests. Once division budget requests are approved by the State Treasurer, the appropriation request is submitted to the Department of Finance and Administration and the Legislative Finance Committee for consideration by the Legislature and Governor. When the appropriations act is passed by the Legislature and signed by the Governor, the Budget Bureau prepares the operating budget for the upcoming fiscal year. Throughout the fiscal year, the Budget Bureau submits monthly status reports to the State Treasurer to ensure the office is operating within budget guidelines.

Finance Bureau

The Finance Bureau is charged with the following responsibilities:

- ◆ Reconciliation and preparation of financial statements and treasury transaction postings to the general ledger—the Finance Bureau coordinates information required by the independent public accounting firm performing the annual external audit.
- ◆ Procurement of supplies, furniture, equipment and services for the Treasurer's Office—this requires that the procurement officer comply with the state's procurement laws and ensures that contracts are complete and accurate. This unit is responsible for identifying fixed assets for the agency and maintaining the fixed asset inventory. This unit also is responsible for the distribution and control of supplies and equipment for the office.
- ◆ Contract management ensures requests for proposals (RFPs) and service contracts are prepared in compliance with statutes, rules and policies, and that vendor payments for completed services are timely. This unit also enters contract transactions into the general ledger and subsequently closes them out in accordance with the agreement and all applicable regulations.
- ◆ Accounts payable to receive and process invoices for goods and services rendered—this includes the pre-audit of costs in accordance with the contract or purchasing agreement prior to payment. Accounts payable submits payment requests to the Department of Finance and Administration (DFA); upon receipt of the payment, warrant is reviewed for accuracy prior to release to the vendor.



Unique New Mexico
New Mexico Tourism Department

- ◆ Records management for internal and external storage of required documents in accordance with the New Mexico Public Records Act—when records are received for storage the contents are verified and labels prepared by the division and either stored at the State Treasurer's Office or transferred to the State Records Center and Archives for retention and disposal as mandated by the State Treasurer's records retention schedule.

Accomplishments FY 2013:

Two new staff members were hired, trained and are now fully functional within the division.

The Budget and Finance Division completed the documentation of all financial procedures and continues to update them as changes occur at the Department of Finance & Administration.

Initiatives FY 2014:

The Budget & Finance Division implemented a "Cross Training Plan" for all staff of the division so there will be a least two staff members trained in all financial procedures.



Cash Management can be defined as a systematic gathering of information about the state's receipts, disbursements, and balances, and the use of that information to effectively manage the funds available to the state. The position of State Cash Manager was established in 1993 under 8-6-3.1 NMSA 1978 and its duties are defined to include: issuance of regulations to enforce the Cash Management Improvement Act, monitor state agencies' cash activity and the balances on hand in financial institutions; monitor deposits and cash balances on hand to enable projection of short-term and long-term cash available for short- and long-term investment; determine and update warrant clearance patterns; and, preparation of monthly written report of state fund balances issued to the State Treasurer's Investment Committee and State Board of Finance.

Banking Resources Bureau

The Banking Resources Bureau monitors all balances and activity related to state funds in financial institutions. Specific activities of this bureau include: development of regulations related to approximately 600 bank accounts; approval, analysis and authorization of these state agency bank accounts.

This bureau validates deposits and withdrawals into and out of the state's fiscal agent accounts, including all adjustments to the accounts such as returned checks, stop payments, and other miscellaneous bank account transactions. The bureau compares fiscal agent bank accounts' activity to transactions in the state's enterprise accounting system (SHARE) daily.

Monthly reports are obtained from state agencies detailing funds from any source in the agency's custody. The bureau authorizes state agency requests for depository bank accounts outside the fiscal agent bank; reports account balances in each financial institution to the State Board of Finance; verifies compliance with established bank account guidelines and reports any deviations to the agency and the State Board of Finance; and, enforces laws and regulations that apply to financial institutions receiving state funds. This division also reviews the monthly fiscal agent account analysis for compliance with the agreement and to identify and control unauthorized use.

Cash Flow Bureau

The Cash Flow Bureau is responsible for projection of the State's short-term and long-term cash balances needs utilizing a model that was developed internally. Historical trends together with information related to significant receipts and disbursements are used as the primary input to the model. The bureau coordinates with state agencies that have the largest inflows and outflows of funds to anticipate changes in the amount and timing that could impact the cash position of the State Treasury. The Cash Flow model is updated monthly or more frequently if necessary and a written report is issued to the State Treasurer's Investment Committee and State Board of Finance.

This bureau also performs daily cash positioning. Cash positioning is the process of determining the State's cash needs on an intra-day basis in order to meet its obligations. Funds that are not needed to meet the State's immediate cash needs are invested by the investment division to provide additional earnings. Cash positioning is a very critical function as errors can result in overdrafts or returned items at the fiscal agent bank.

This bureau will continue to research and work with the state's fiscal agent, other banking institutions and other professional organizations in implementing modern cash management products to implement best practices and accelerate receipts for more effective cash management and thereby maximize funds available for investment.

The Cash Flow Bureau is also responsible for compliance with the Cash Management Improvement Act of 1990 (CMIA). Congress established CMIA to ensure efficiency, effectiveness, and equity in the transfer of funds between state and federal governments. CMIA addresses key Federal funding issues such as funds drawn in advance of need, or late grant of award from the federal government. Major CMIA provisions require that federal agencies make timely fund disbursements and grant awards to states; state and federal agencies must minimize the time between the transfer of federal funds to states and the presentment of states' checks, warrants, or settlement of electronic fund transfer payments for program purposes; and, with minor exceptions, that states earn interest from the federal government for the time the state advances its own funds for program purposes prior to federal reimbursement.



The Cash Management Division performs annual compliance audits of state agencies that receive federal funds exceeding an established threshold and for compliance with the CMIA and regulations outlined in the U.S. Treasury/State Agreement (TSA). This agreement, negotiated between New Mexico and the Federal Government, identifies the funding techniques utilized for covered programs. Audits begin at the end of the fiscal year and must be completed by mid-December. An annual report is submitted to the U.S. Treasury detailing state and/or federal government interest liability and any costs associated with the monitoring and reporting of CMIA compliance.

Accomplishments FY 2013:

Cash Remediation Project

The State Treasurer's office began working with the Department of Finance and Administration (DFA) and the Department of Information Technology (DoIT) on the remediation of the business processes and issues with the Statewide Human Resources, Accounting, and Management Reporting (SHARE) system that prevented DFA from performing a meaningful reconciliation between its general ledger and funds held by STO. On June 20, 2012, the "Current State Diagnostic of Cash Control" report was issued by consultants that were hired to assess the current state of cash reconciliation and make recommendations for remediation. The Diagnostic identified a number of issues that were preventing the completion of a timely and accurate statewide cash reconciliation and recommended an approach to remediate the current cash control issues. Deloitte was consultant prepared the diagnostic and performed project management.

Most issues were the result of inadequate implementation of the SHARE system in 2006. The SHARE system which is Oracle/Peoplesoft based did not have the full treasury management system implemented at conversion. This resulted in many processes being disjointed and the system that tracks the investment portfolios that the State Treasurer's office manages not integrated into SHARE.

Recommendations from the remediation project were implemented effective February 1, 2013 to facilitate a point forward reconciliation which included:

- ◆ Opening and aligning bank accounts by agency
- ◆ Creation of a GL account for each bank account
- ◆ Establishment of GL account 101800 (Agency Interest in SGFIP – Remediated Process) to capture and report funds held by the State Treasurer's Office (STO) in the State General Fund Investment Pool (SGFIP) for the account of the State Agency.
- ◆ Modifications to the SHARE Accounts Payable, Accounts Receivable, and Treasury modules have enhanced the State's ability to reconcile cash.
- ◆ Business process changes to Third-Party Warrant Processing Effective November 1, 2013

DFA considers the project to be a success and is reconciling on a monthly basis. Additional remediation recommendations require that the SHARE system receive hardware and software upgrades. The hardware is scheduled to be upgraded early in calendar year 2014 and is anticipated to provide the needed capacity for several critical functions. Implementation of the full treasury management module which will include the deal management module, which is an integrated investment tracking system, is anticipated to occur after the SHARE software is upgraded late in calendar year 2015. A multi-year IT appropriation for \$1.95 million to fund the full implementation was approved by the legislature in January 2013.

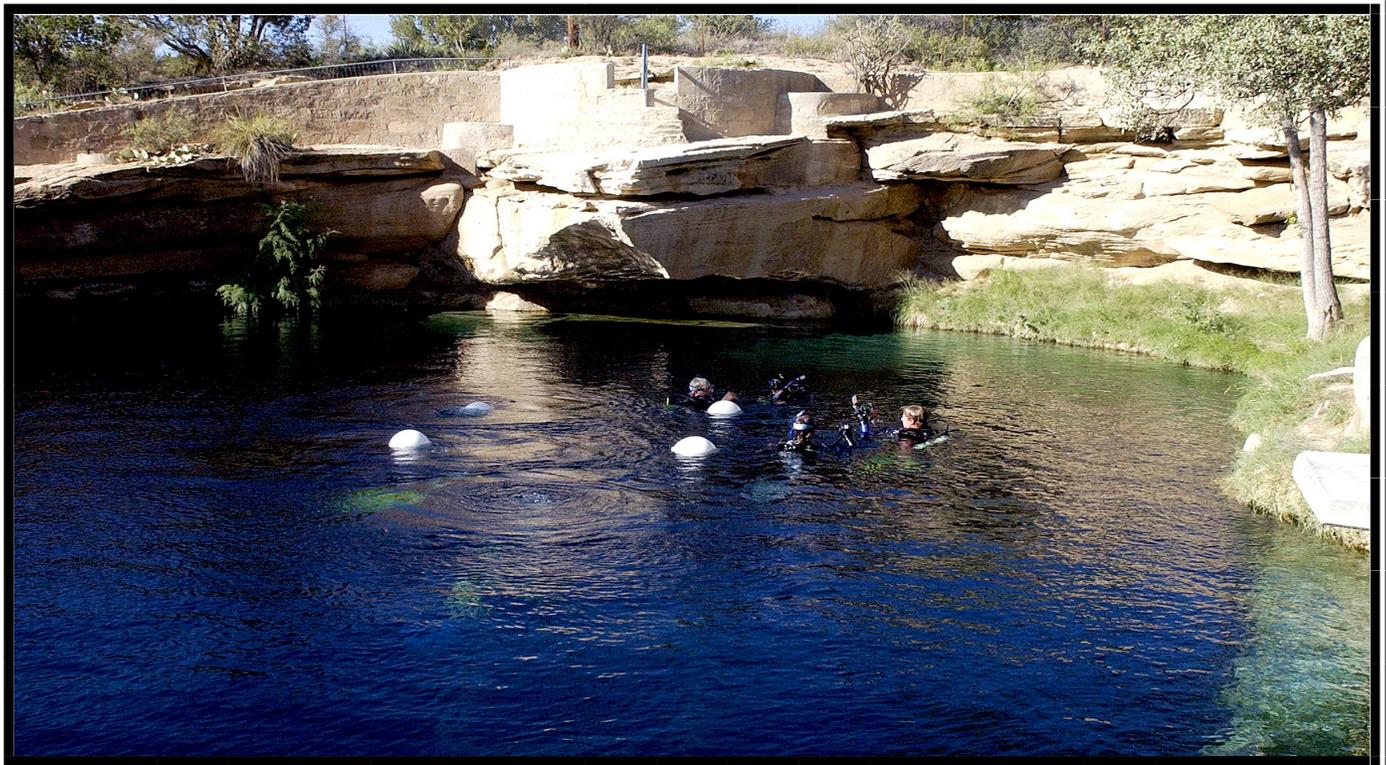
Daily Cash Positioning

During FY 2013, the Cash Management Division assumed responsibility for the Daily Cash Positioning of the State. Cash positioning is the process of determining the amount of liquidity that must be left on deposit with the fiscal agent bank after all deposits are received and daily disbursements are deducted. Excess amounts are invested by the Investment Division to maximize return. The transition of this function was a natural fit for the Cash Management Division as it performs cash forecasting. The cash forecast projects significant deposits and withdrawals which is vital in the daily cash positioning process. The transition has proven to be a success as no accidental overdrafts have occurred at the fiscal agent bank.



Initiatives FY 2014:

- ◆ Work with DoIT and DFA to implement the outstanding recommendations from the Cash Remediation Project.
- ◆ Work with DoIT and DFA to implement the upgraded PeopleSoft Treasury Management System in SHARE.
- ◆ Explore the feasibility of utilizing an account aggregation system to automate tracking of activity and balances at banks that are not covered by the fiscal agent agreement.
- ◆ Improve state agency-oriented training and service related to deposits and disbursements.
- ◆ Cross-train all staff positions especially key long-term employees.
- ◆ Work to clear all audit exceptions.
- ◆ Participate in an initiative to update outdated statutes that no longer consistent with current business practices.
- ◆ Complete transition of court deposits entry from STO to the Courts
- ◆ Work to reduce fiscal agent bank charges by evaluating various options and business processes.
- ◆ Work with the State's fiscal agent bank on the rollout of additional desktop deposit scanners to improve agency efficiency and staff safety.



Blue Hole- Santa Rosa, New Mexico
New Mexico Tourism Department



The Investment Division is responsible for investing, transacting funds, ensuring sufficient collateral, accounting for and reconciling funds held in the custody of the State Treasurer that are not immediately needed for government operations or to fund capital projects. The managed funds are temporary in nature, originating from three major sources: revenue collected by the state awaiting disbursement, legislative appropriations, and proceeds from bond issues invested short-term until disbursed for legislatively-authorized capital projects.

Investments are restricted to the highest quality securities according to ratings by the major rating agencies, and to a term of not more than five years. The State Treasurer's internal investment advisory team discusses, agrees upon, and recommends the security types and terms prior to purchase, secures post-trade review signatures, and reports the executed portfolio activity to the State Treasurer's Investment Committee and to the State's Board of Finance monthly.

The State Treasurer's Investment Committee, which is an advisory committee, meets monthly to review the investment portfolios for statutory compliance, quality, diversification, maturity, and performance; and also reviews portfolio controls, collateral adequacy, and recommends investment procedural changes. Periodically, this committee also makes recommended changes to the State Treasurer's Investment Policy. The division, with the assistance of an investment consultant, developed benchmarks against which the portfolios' performance can be measured.

During FY 2013, the division earned approximately \$20.9MM. At the end of FY 2013, the four portfolios total approximately \$3.7 billion.

All funds are invested in a manner that is in conformance with federal, state and other legal requirements. The division is charged with observing the following priorities in making investment decisions, in the order described:

- ◆ Safety – the first priority must be accorded to the preservation and protection of the principal of the funds to be invested;
- ◆ Maintenance of Liquidity Needs – the second level of priority must be accorded to maintaining sufficient availability of cash, or the capacity to obtain it without sacrificing principal loss, in order to satisfy the reasonably anticipated, continuing operational requirements of the specific fund invested; and
- ◆ Maximum Return on Investments – the third priority must be accorded to maximizing investment return, consistent with the higher priorities accorded to the safety and liquidity of principal.

Fiscal Agent Bank Balances are monies held at the fiscal agent bank and are managed to a target balance after payment of checks, warrants, ACHs and wire transfers processed by the State. Once the daily cash position is set, then the Investment Division proceeds to invest the available cash based upon the intended uses into one of the following Pools:

The General Fund Investment Pool, consisting of three main components:

- ◆ Liquidity Portfolio – Immediate cash needs of the State are to be met with the General Fund Liquidity Portfolio. The Liquidity Portfolio is expected to have minimal liquidity risk and all investments in this portfolio are constrained to less than a year;
- ◆ CORE Portfolio – The CORE portfolio is comprised of cash that is not reasonably expected to be necessary to meet the short-term cash flow needs of the State. Accordingly, it may be invested over a longer term than the Liquidity Portfolio; and
- ◆ General Fund TRAN Portfolio – The TRAN portfolio may temporarily hold proceeds of short-term Tax and Revenue Anticipation Notes which are periodically issued by the Treasurer's Office in order to manage cash flows associated with the timing of tax and revenue receipts.



The State Treasurer makes a portion of the General Fund money available for investment in certificates of deposit (CD) with New Mexico banks, savings and loan associations, and credit unions to foster the economy of their communities. The passage of House Bill 471, the 'Linked Deposit Program,' during the 2007 legislative session expanded the CD program to allow the Treasurer to place time deposits with qualifying financial institutions (those serving economically disadvantaged rural communities) at favorable rates.

The Bond Proceeds Investment Pool, consisting of two main components:

- ◆ Tax-Exempt Bond Proceeds Investment Pool – The Tax-Exempt BPIP is utilized to hold proceeds from state-issued tax-exempt bond financings until expended on capital projects. Additionally, debt service and other bond-related monies are held in this pool.
- ◆ Taxable Bond Proceeds Investment Pool – The Taxable BPIP is utilized to hold proceeds from state-issued taxable bond financings until expended on capital projects. Additionally, debt service and other bond-related monies are carried in this pool.

As the state's paying agent, the Treasurer is responsible for making scheduled debt service payments on the bonds. The Bond Proceeds Investment Pools (BPIPs) facilitate the tracking of investment earnings and project draws to assure compliance with arbitrage restrictions and rebate requirements in accordance with the Federal Tax Reform Act of 1986.

By statute, the State Treasurer also manages funds on behalf of other entities within the State:

The Local Government Investment Pool (LGIP) – The LGIP is a fund created by the New Mexico State Legislature to allow municipal, city, county, tribe and quasi-governmental bodies to remit money to the state treasurer to receive professional money management on a pooled basis. LGIP is rated 'AAAm' by Standard & Poor's, the highest principal stability credit rating awarded by Standard & Poor's.

The Severance Tax Bonding Fund – The Severance Tax Bonding Fund holds severance tax receipts before being spent on permitted uses or is transferred to the Severance Tax Permanent Fund held by the State Investment Council.

The Repurchase Pool which acts as a repository for cash balances of the Educational Retirement Board, the State Investment Council, the Public Employees Retirement Association and other entities within the state.

The types of investments that the State Treasurer may make are statutorily defined and subject to further limitations or restrictions by the State Treasurer's Investment Policy. Examples of allowable investments are:

- ◆ U.S. Government and U.S. Agency obligations
- ◆ Commercial paper
- ◆ Corporate bonds
- ◆ Government Money market mutual funds
- ◆ Certificates of deposit
- ◆ New Mexico municipal obligations
- ◆ Repurchase agreements
- ◆ Asset-backed obligations 'AAA' rated.



Accomplishments FY 2013:

- ◆ Hired and realigned staff within division ensuring back-ups and cross-training; created division procedures and internal controls
- ◆ Implemented full GAAP investment accounting reconciliation and procedures and recommended new account structure to DFA for input of investment transactions into SHARE
- ◆ S&P re-affirmed the 'AAAm' rating on the LGIP
- ◆ Completed RFP for Custodian Services
- ◆ Facilitated the 5th Annual LGIP Stakeholder meeting



Gilman Tunnels
New Mexico Tourism Department

Initiatives FY 2014:

- ◆ Finalize the State Treasurer's Investment Policy re-write (Dec. 2013)
- ◆ Evaluate QED (STO's Accounting System) for hardware, hosting & disaster recovery options as the integration into SHARE may not be viable
- ◆ Facilitate the 6th Annual LGIP Stakeholder meeting
- ◆ Evaluate Longer Duration LGIP
- ◆ Evaluate Additional REPO/Triparty Counterparties
- ◆ Evaluate Security Lending Programs to add incremental revenue
- ◆ Evaluate the addition of Credit to STO portfolios; building an internal infrastructure
- ◆ Outreach (LGIP, CD program, Counties and Municipalities)
- ◆ Investment Advisor Procurement in 2014
- ◆ Evaluate State Mandated Collateral Pool



The Operations Division is comprised of the Human Resources (HR) and Information Technology (IT) Bureaus as well as daily office operations. The division provides human resources and information technology support to the State Treasurer's Office. The division is responsible for facilities management and security, agency vehicle maintenance, mail processing and inter-agency deliveries. The Operations Division led the charge to revamp the Emergency Evacuation Plan and conducted evacuation drills to ensure staff was aware of the required procedures. The division responds to internal customer needs and works with external agencies and stakeholders.

Human Resources Bureau

The Human Resources Bureau prepares and processes documentation for personnel actions, monitors performance evaluations, trains staff and processes bi-weekly payroll.

Information Technology Bureau

The IT Bureau maintains and monitors the State Treasurer's Office IT systems. The bureau evaluates business processes and plans for automating functions where possible. The bureau maintains the local area network, investment systems, accounting system, and telecommunications for the office. The bureau also maintains the disaster recovery network and the disaster recovery investment system. The bureau manages the security systems and information systems (software and hardware). The bureau is responsible for cyber security and the maintenance of the State Treasurer's information technology business continuity plan and the disaster recovery plans. Currently, the State Treasurer's Office maintains a Disaster Recovery (Hot Site) at the Attorney General's Office in Albuquerque, NM. The IT Bureau continuously reviews and evaluates the hardware and software to determine future technology needs to ensure the State Treasurer's Office can continue operations with minimal down time, should a disaster occur.

Accomplishments FY 2013:

Fiscal year 2013 marked a number of planning opportunities and planned implementations. The disaster recover site will be reconfigured to allow for complete server virtualization as well as remote access and remote desktop services for our local area networks and telecommunications. These changes will allow users (in the event of an emergency) to work from any location that has computer available including home or other state office locations.



Las Cruces— Farm and Ranch Museum
New Mexico Tourism Department

The State Treasurer's Office plans to move the on-site and off-site investment system to the web; which, will be maintained and managed by QED Financial Systems. The disaster recovery system for the Investment System will be stored in an underground bunker located in New Jersey, which will be maintained and managed by QED Financial Systems, giving the State Treasurer's Office 24x7 access. These changes will allow users (in the event of an emergency) to work from any location that has computer available including home or other state office locations.

Additionally, planning and forecasting was also an important focus in the last part of FY2012 and beginning of the FY2013 as an analysis was completed of the current investment accounting system, the cash management system and the process relationship to both DFA and DoIT. A strategic alliance was formed with both agencies. Funds totaling \$1.9 million were appropriated by the legislature during the 2013 legislative session for the implementation and configuration of the PeopleSoft 'Treasury Management System'. The project is currently on hold pending the re-platforming of SHARE hardware and the upgrade of the PeopleSoft software.



Independent Auditors' Report and State Treasurer's Financial Statements

The 2013 audit of the State Treasurer's financial statements has been performed this year by the independent accounting firm of CliftonLarsonAllen, LLP with approval by the New Mexico State Auditor's Office.

Included in this section of the State Treasurer's 2013 Annual Report for the fiscal year ended June 30, 2013, are the Independent Auditors' Report and State Treasurer's Financial Statements.

The Management's Discussion and Analysis, Notes to Financial Statements, Schedules and Supplementary Information are included in the *State of New Mexico, Office of the State Treasurer, Financial Statements for the Year Ended June 30, 2013, and Independent Auditors' Report*, and are available for review on the State Treasurer's Web site at www.nmsto.gov.



Independent Auditors' Report

Honorable Susana Martinez, Governor
State Board of Finance
Honorable James B. Lewis, State Treasurer
Honorable Hector H. Balderas, State Auditor
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate remaining fund information, the budgetary comparison for the general fund, and each fiduciary fund, of the State of New Mexico Office of the State Treasurer (the Office) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, each fiduciary fund, and the aggregate remaining fund information of the Office as of June 30, 2013, and the respective changes in financial position and, respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Office's basic financial statements. Schedules 1 – 11 in the Supplementary Information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules 1 – 11 in the Supplementary Information section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1 – 11 in the Supplementary Information section are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013, or our consideration of the Office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 16, 2013



STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF NET POSITION
June 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Investment in State General Fund Investment Pool	\$ 218,547
Repurchase agreements (held in State General Fund Investment Pool)	163,448,234
Due from other agencies	78,620,034
Other assets	2,030
Capital assets, net of accumulated depreciation:	
Equipment	<u>43,838</u>
 Total assets	 <u>242,332,683</u>
LIABILITIES	
Accounts payable	260,852
Accrued payroll	43,500
Accrued payroll taxes	11,690
Due to State General Fund	123,838
Due to Other State Agencies	85
Compensated absences	<u>110,348</u>
 Total liabilities	 <u>550,313</u>
NET POSITION	
Invested in capital assets	43,838
Restricted for:	
Debt service	241,839,994
Unrestricted	<u>(101,462)</u>
 Total net position	 <u>241,782,370</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 242,332,683</u>



STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF ACTIVITIES
 Year Ended June 30, 2013

Functions/Programs	Expenses	Operating Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position Primary Government
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES			
General government	\$ 4,725,076	\$ -	\$ (4,725,076)
Interest on debt service activity	48,562,628	-	(48,562,628)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 53,287,704	\$ -	(53,287,704)
GENERAL REVENUES:			
			49,331,490
UNRESTRICTED INVESTMENT EARNINGS			
BOND ACTIVITY:			
			(456,702,435)
TRANSFER FROM (TO) STATE AGENCY:			
			3,694,600
			(121,124)
			3,613,052
			7,369,532
			<u>420,048,819</u>
		Total general revenues and transfers	<u>27,233,934</u>
		CHANGE IN NET POSITION	<u>(26,053,770)</u>
		NET POSITION, BEGINNING	265,645,207
		RESTATEMENT	<u>2,190,933</u>
		NET POSITION, BEGINNING, restated	<u>267,836,140</u>
		NET POSITION, ENDING	<u>\$ 241,782,370</u>



STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	<u>Major Funds</u>			Total Governmental Funds
	<u>General Fund</u>	<u>General Obligation Bond Fund</u>	<u>Severance Tax Bond Fund</u>	
ASSETS				
Investment in State General Fund				
Investment Pool	\$ 218,547	\$ -	\$ -	\$ 218,547
Repurchase agreements (held in State General Fund Investment Pool)	-	18,719,724	144,728,510	163,448,234
Other assets	2,030	-	-	2,030
Due from other Agencies	-	-	78,620,034	78,620,034
	<u>-</u>	<u>-</u>	<u>78,620,034</u>	<u>78,620,034</u>
Total assets	<u>\$ 220,577</u>	<u>\$ 18,719,724</u>	<u>\$ 223,348,544</u>	<u>\$ 242,288,845</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 32,663	\$ 225,674	\$ 2,515	\$ 260,852
Due to Severance Tax Permanent Fund	-	-	85	85
Due to State General Fund	123,838	-	-	123,838
Accrued payroll	43,500	-	-	43,500
Accrued payroll taxes	11,690	-	-	11,690
	<u>211,691</u>	<u>225,674</u>	<u>2,600</u>	<u>439,965</u>
Total liabilities	<u>211,691</u>	<u>225,674</u>	<u>2,600</u>	<u>439,965</u>
FUND BALANCES:				
Restricted for:				
Debt service	-	18,494,050	223,345,944	241,839,994
Unrestricted, unassigned	8,886	-	-	8,886
	<u>8,886</u>	<u>18,494,050</u>	<u>223,345,944</u>	<u>241,848,880</u>
Total fund balances	<u>8,886</u>	<u>18,494,050</u>	<u>223,345,944</u>	<u>241,848,880</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 220,577</u>	<u>\$ 18,719,724</u>	<u>\$ 223,348,544</u>	<u>\$ 242,288,845</u>



**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2013**

**Total Fund Balance - Governmental Funds
(Balance Sheet - Governmental Funds)**

\$ 241,848,880

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.

Capital assets total acquisition value	253,779
Total accumulated depreciation	<u>(209,941)</u>
Total capital assets, net	43,838

Some liabilities (compensated absences) are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.

(110,348)

Net position of governmental activities (Statement of Net Position)

\$ 241,782,370

-



**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS
 Year Ended June 30, 2013**

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>General Obligation Bond Fund</u>	<u>Severance Tax Bond Fund</u>	
REVENUES				
Interest income - debt service	\$ -	\$ 597,161	\$ 6,772,371	\$ 7,369,532
Total revenues	<u>-</u>	<u>597,161</u>	<u>6,772,371</u>	<u>7,369,532</u>
EXPENDITURES				
Current:				
Personnel services and employee benefits	2,785,552	-	-	2,785,552
Operating costs:				
Contractual services	173,509	-	-	173,509
Other administrative expenditures	603,040	-	-	603,040
Debt service:				
Principal and interest on long-term debt	-	76,000,200	149,434,278	225,434,478
Principal and interest on short-term debt	-	-	279,830,585	279,830,585
Other charges	-	562,173	570,155	1,132,328
Capital outlay	11,375	-	-	11,375
Total expenditures	<u>3,573,476</u>	<u>76,562,373</u>	<u>429,835,018</u>	<u>509,970,867</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,573,476)	(75,965,212)	(423,062,647)	(502,601,335)
OTHER FINANCING SOURCES (USES):				
State general fund appropriations	3,572,300	-	-	3,572,300
Special appropriation	122,300	-	-	122,300
Reversions to State General Fund FY13	(121,124)	-	-	(121,124)
Severance taxes	-	-	420,048,819	420,048,819
State property tax levy	-	49,331,490	-	49,331,490
Transfer (to) from other state agency	-	836,354	2,776,698	3,613,052
Total other financing sources (uses)	<u>3,573,476</u>	<u>50,167,844</u>	<u>422,825,517</u>	<u>476,566,837</u>
NET CHANGE IN FUND BALANCES	-	(25,797,368)	(237,130)	(26,034,498)
FUND BALANCES, BEGINNING OF YEAR	8,886	44,291,418	221,392,141	265,692,445
RESTATEMENT	-	-	2,190,933	2,190,933
FUND BALANCES, BEGINNING OF YEAR, restated	<u>8,886</u>	<u>44,291,418</u>	<u>223,583,074</u>	<u>267,883,378</u>
FUND BALANCES, END OF YEAR	<u>\$ 8,886</u>	<u>\$ 18,494,050</u>	<u>\$ 223,345,944</u>	<u>\$ 241,848,880</u>



**STATE OF NEWMEXICO OFFICE OF THE STATE TREASURER
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2013**

Net Change in Fund Balances - Total Governmental Funds

**(Statement of Revenues, Expenditures, and
Changes in Fund Balances)**

\$ (26,034,498) -

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which depreciation expense of \$43,215 exceeded capital outlay expense of \$11,375 in the current period:

(31,840)

Some expenses reported in the statement of activities do not require the use of current financial resources, and these are not reported as expenditures in governmental funds:

Decrease in compensated absences

12,568

Change in net position of governmental activities

\$ (26,053,770) -



STATE OF NEWMEXICO OFFICE OF THE STATE TREASURER
 STATEMENT OF REVENUES AND EXPENDITURES - MAJOR GOVERNMENT FUNDS -
 BUDGET AND ACTUAL (Budgetary Basis)
 Year Ended June 30, 2013

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
State General Fund appropriation	\$ 3,572,300	\$ 3,572,300	\$ 3,572,300	\$ -
Other	122,300	122,300	122,300	-
Total revenues	3,694,600	3,694,600	3,694,600	-
EXPENDITURES				
Current:				
Personnel services and benefits	3,012,600	2,882,600	2,785,552	97,048
Contractual services	175,500	185,500	173,509	11,991
Operating costs	506,500	626,500	614,415	12,085
Total expenditures	3,694,600	3,694,600	3,573,476	121,124
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,124</u>	<u>\$ 121,124</u>
RECONCILIATION TO STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE				
Unbudgeted reversions to State General Fund			(121,124)	
NET CHANGE IN FUND BALANCES (GAAP BASIS)			<u>\$ -</u>	



STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF FIDUCIARY NET POSITION
 June 30, 2013

	<u>Investment Trust Fund</u>	<u>Agency Fund - Gaming Suspense Fund</u>
ASSETS		
Cash and investments:		
Fiscal Agent Bank Account	\$ 160,648,092	\$ -
Investment in State General Fund		
Investment Pool	-	2,368,665
Cash in banks	259,519,528	-
Certificates of Deposit	59,950,000	-
U.S. Government securities	2,463,519,046	-
Corporate Bonds	16,326,722	-
Municipal Bonds	73,453,986	-
Repurchase agreements	1,085,000,000	-
CMO/REMIC	<u>6,260,990</u>	<u>-</u>
Total cash and investments	4,124,678,364	2,368,665
Securities receivable	194,163,729	-
Other receivables	436,506	-
Accrued interest receivable	<u>10,251,248</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 4,329,529,847</u>	<u>\$ 2,368,665</u>
LIABILITIES		
Due to Broker	159,010,931	-
Other liabilities	28,307	-
Due to State General Fund	<u>-</u>	<u>2,368,665</u>
TOTAL LIABILITIES	<u>159,039,238</u>	<u>2,368,665</u>
NET POSITION - HELD IN TRUST	<u>4,170,490,609</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 4,329,529,847</u>	<u>\$ 2,368,665</u>



**STATE OF NEW MEXICO OFFICE OF THE STATE TREASURER
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2013**

	<u>Investment Trust Fund</u>
INVESTMENT INCOME	\$ 7,232,533
EXPENSES	
Management fees	<u>(303,950)</u>
Net investment income	<u>6,928,583</u>
NET PROCEEDS OF DEPOSITS (WITHDRAWALS)	174,521,996
NET POSITION, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2012	<u>3,989,040,030</u>
NET POSITION, HELD IN TRUST FOR POOL PARTICIPANTS, JUNE 30, 2013	<u>\$ 4,170,490,609</u>



The State Treasurer serves on the following Boards and Commissions and is the only elected state official to serve as a member of all state financial and investment boards and commissions, which have a total fiduciary responsibility of more than \$40 billion.

State Board of Finance (BOF)—Has general supervision of the fiscal affairs of the state. It is charged with the safe-keeping of all money and securities belonging to or in the custody of the state, and has authority to issue general obligation bonds and severance tax revenue bonds.

State Investment Council (SIC)—Administers and manages New Mexico's three permanent trust funds: the Land Grant Permanent Fund, the Severance Tax Permanent Fund, and the Tobacco Settlement Permanent Fund. Additionally, the State Investment Council manages long-term investment funds for multiple state and local government entities.

Public Employees Retirement Association (PERA)—Oversees the principal retirement and disability benefits programs of state, county, and municipal employees, including municipal police and firefighters. The Board serves as trustee for the association. Its mission is to preserve, protect, and administer the trust to meet its current and future obligations and provide quality services to association members.

Educational Retirement Board (ERB)—Provides retirement benefits for teachers and other school employees from public school districts, institutions of higher education, and educational agencies. The Board is the trustee of the Educational Retirement Fund.

Retiree Health Care Authority (RHCA)—Was created in 1990 to provide comprehensive and affordable group health insurance to eligible retirees of certain public service employers in New Mexico, to their spouses and dependents, and to surviving spouses and dependents.

Mortgage Finance Authority (MFA)—Is a quasi-public entity, financing housing and related services for low-to moderate-income and underserved families. The Mortgage Finance Authority provides affordable housing finance programs, including assistance for the homeless, apartment development, and home ownership.

Educational Assistance Foundation (EAF)—Is a non-profit corporation, created pursuant to the State Educational Assistance Act, which provides financial assistance to qualified post-secondary students. The purpose of the Foundation is to improve the educational opportunities of residents of New Mexico through educational assistance programs.

Small Business Investment Council (SBIC)—Is charged with creating new job opportunities and supporting new or expanding businesses in the state. The SBIC makes more capital available to small businesses through investing in alternative and micro lenders as well as venture capital funds.

Martin Luther King, Jr. Commission (MLK)—Promotes cultural awareness and human rights to all people of New Mexico through Dr. King's life philosophy and six principles of nonviolent social action.

Capitol Buildings Planning Commission (CBPC)—Is responsible for long-range planning and review of state properties and the development of an overall master plan.

Renewable Energy Transmission and Authority (RETA)—Has the authority to issue and sell revenue bonds and use the proceeds to finance eligible energy transmission and storage facilities and to acquire and operate facilities through leases.



Memorial

In Memory of our Friend and Colleague

Alfredo Robert Santistevan

Alfredo Robert Santistevan passed away on Monday, October 14, 2013. Alfredo's biggest accomplishment in life was being a father to his daughter and grandfather to his two grandchildren. He is survived by his daughter, grandchildren, wife, parents and many relatives and friends. Alfredo loved electronics and the finer things in life. He had the biggest heart and he was a loving, carefree, warm-hearted individual. He was loved and highly respected by all. Alfredo served the citizens of New Mexico through various positions that he held with the State of New Mexico and the City of Albuquerque. He enjoyed helping the retirees of the state and municipalities of New Mexico by serving as chairperson for the New Mexico Retiree Health Care Authority board as well as other boards and charities. Alfredo had such love for and an impact on the Sacred Heart Parish in Española that Father Oscar Coelho traveled from Rome to officiate Alfredo's services. Alfredo would have been so honored.

Although Alfredo is no longer with us, the staff at the State Treasurer's Office remembers him daily – by recalling something hilarious and offbeat that he said or did. He has left his footprints in the sand.





**In Memory of our Friend and Colleague
J. Paul Boushelle
His spirit and sense of humor will be missed!**

"Treasurer James B. Lewis and Staff 2013"



J. Paul Boushelle

Mr. J. Paul Boushelle was appointed to the State Treasurer's Investment Committee (STIC) by Treasurer James Lewis in 2011. Mr. Boushelle's knowledge and expertise in investments and banking were invaluable to the STIC. Not only was he knowledgeable, but he was a kind and considerate person. He was always in a jovial mood when he attended meetings and would get to the meetings early to have his special cup of coffee.

Mr. Boushelle was the first of three generations of proud Aggies and often wore his NMSU Aggie lapel pin to the meetings. It appears that Mr. Boushelle wrote his own obituary, which is not surprising. He wanted to let people know how special they were and how much he enjoyed having them be a part of his life. Even when he may not have felt his best he seemed to make others feel good with just his positive attitude.



Taos Gorge Bridge
New Mexico Tourism Department

ACKNOWLEDGEMENTS

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Office of the State Treasurer. A special thanks to the many staff members who provided information, suggestions, and support for this publication.

Special appreciation is given to the New Mexico State Auditor's Office and the New Mexico Department of Finance and Administration, for their dedicated efforts in assisting us in the preparation of the State Treasurer's 2013 Annual Financial Report and the 2013 Independent Auditor's Report. In addition, gratitude is extended to the New Mexico Department of Tourism for the use of photographs presented in this report.